Which Business Entity Type is right for your new business?

Choosing the appropriate organizational structure for your business is one of the most important decisions to make at the start of the business, and may require advice from an attorney, an accountant or some other knowledgeable business advisor.

The options below provide brief descriptions of the principal types of business organization.

For more information, including registration requirements, tax implications, and the advantages and disadvantages of each, consult the Kansas Business Center website.

http://www.kansas.gov/business

SOLE PROPRIETORSHIP

The sole proprietorship is the most common form of business structure.

- A sole proprietorship is a business controlled and owned by one individual and is limited to the life of its owner, so when the owner dies the business ends.
- The owner receives the profits and takes the losses from the business.
- This individual alone is responsible for the debts and obligations of the business.
- Income and expenses of the business are reported on the proprietor's individual income tax return and profits are taxed at the proprietor's individual income tax rate.
- Kansas has no state requirements to register or file the business name of a sole proprietorship.

GENERAL PARTNERSHIP

A general partnership is a business owned by two or more people (even a husband and wife), who carry on the business as a partnership. Partnerships have specific attributes, which are defined by Kansas statutes.

- All partners share equally in the right and responsibility to manage the business.
- Each partner is responsible for all debts and obligations of the business.
- The distribution of profits and losses, allocation of management responsibilities and other issues affecting the partnership are usually defined in a written partnership agreement.
- The filings are optional and not mandatory.

LIMITED PARTNERSHIP

In a limited partnership, each partner is liable for debts only up to the amount of his or her investment in the company.

- Under Kansas statutes a limited partnership must be formed in writing between one or more general partners and one or more limited partners.
- In addition, limited partners have no voice in the management of the partnership.

- Limited partnerships are ideal for property or for raising capital.
- Each limited partnership must have and maintain a registered office in Kansas that may or may not be the place of business.
- Additionally, a Kansas resident agent must be appointed, which may be an individual or a
 domestic or foreign business entity, such as a corporation, a limited partnership, a limited
 liability company, a business trust authorized to do business in this state, or the limited
 partnership itself.
- Registration with the Office of the Secretary of State is required.
- Interests in the limited partnership may be required to be registered with the Office of the Securities Commissioner.

LIMITED LIABILITY PARTNERSHIP

A limited liability partnership is a partnership in which a partner's personal assets are shielded from claims for negligence, malpractice or other wrongful acts committed by other partners or the employees those partners directly supervise.

- A limited liability partnership does not shield any partners against their own acts, omissions or other partnership obligations.
- Each limited liability partnership must have and maintain a registered office that may or may not be a place of business in Kansas.
- Additionally, each limited liability partnership must have and maintain in the state of Kansas a resident agent which may be an individual or a domestic or foreign business entity, such as a corporation, a limited partnership, a limited liability company, a business trust authorized to do business in this state, or the limited liability partnership itself.
- Registration with the Office of the Secretary of State is required.
- Interests in the limited liability partnership may be required to be registered with the Office of the Securities Commissioner.

CORPORATION

The most complex business structure is the corporation.

- A corporation is a separate legal entity that is comprised of three groups of people: shareholders, directors and officers.
- The shareholders elect a board of directors that has responsibility for management and control of the corporation.
- Because the corporation is a separate legal entity, the corporation generally is responsible for the debts and obligations of the business.
- In most cases, shareholders are insulated from claims against the corporation.
- The corporation, as a separate legal entity, is also a separate taxable entity.
- Registration with the Office of the Secretary of State is required.
- It may be necessary for corporate securities to be registered with the Office of the Securities Commissioner.

A domestic corporation is one incorporated in Kansas. It must file Articles of Incorporation with the Office of the Secretary of State.

A foreign corporation is a business incorporated in a country, state or jurisdiction other than Kansas. In order to conduct business in Kansas, a foreign corporation must file an Application for Authority to Engage in Business in Kansas.

A professional corporation is comprised of a single professional or a group of professionals who file both Articles of Incorporation and a certificate from their specific Kansas professional regulatory board with the Secretary of State. Shareholders of a professional corporation are limited to members of that specific profession.

LIMITED LIABILITY COMPANY

A limited liability company, or LLC, is a business entity that combines the limited liability of a corporation with the flexible management options of a general partnership.

- Each member of an LLC enjoys liability limited to that of the investment in the business
 and pays taxes in proportion to ownership share, thus avoiding the corporate malady of
 double taxation.
- Every LLC formed in Kansas must have at the end of the company name the words "limited company," or the abbreviation "LC," or "L.C.," or "limited liability company" or the abbreviation "LLC" or "L.L.C."
- An LLC must maintain a resident agent.
- Members of an LLC may be involved in the management of the business without incurring personal liability.
- If properly structured, an LLC may receive pass-through income tax treatment similar to a partnership.

Registration with the Office of the Secretary of State is required.

- The professional limited liability company is comprised of a single professional or group of professionals, who file both Articles of Organization and a certificate from their specific professional regulatory board with the Office of the Secretary of State. The certificate must state that each member is duly licensed and that the company name has been approved. If the limited liability company is organized to exercise the powers of a professional association or corporation, each such profession shall be stated.
- A domestic LLC, one formed in Kansas, must file Articles of Organization.
- A foreign LLC, one formed in another country, state or jurisdiction other than Kansas, must file a Certificate for Authority to Engage in Business in Kansas/Foreign Limited Liability Company Application.
- It may be necessary for the limited liability company interests to be registered with the Office of the Securities Commissioner.